ALLIANCE FOR RATIONAL INTERCARRIER COMPENSATION

- We are a group of very rural, high-cost companies.
- We believe our industry needs stability to ensure that universal service continues to exist.
- Our purpose is to construct a fair, comprehensive framework for telecommunications compensation.

ALLIANCE FOR RATIONAL INTERCARRIER COMPENSATION
presents the

The FACTS

- **F**air
- **A**ffordable
- **C**omprehensive
- **T**elecom
- **S**olution

Addressing ONLY Intercarrier Compensation is Inadequate

- Plans that only address intercarrier compensation move too much money to USF and don't solve the industry problems.
- The FACTS is a balanced solution for intercarrier compensation, universal service, as well as end user rates.

Attributes of the FACTS Plan

- Local Rate Benchmarks
- Equalized SLCs
- Unified, Cost-based Intercarrier Compensation
- Current Federal USF
- New State Residual Funds
- Regime for IP Compensation

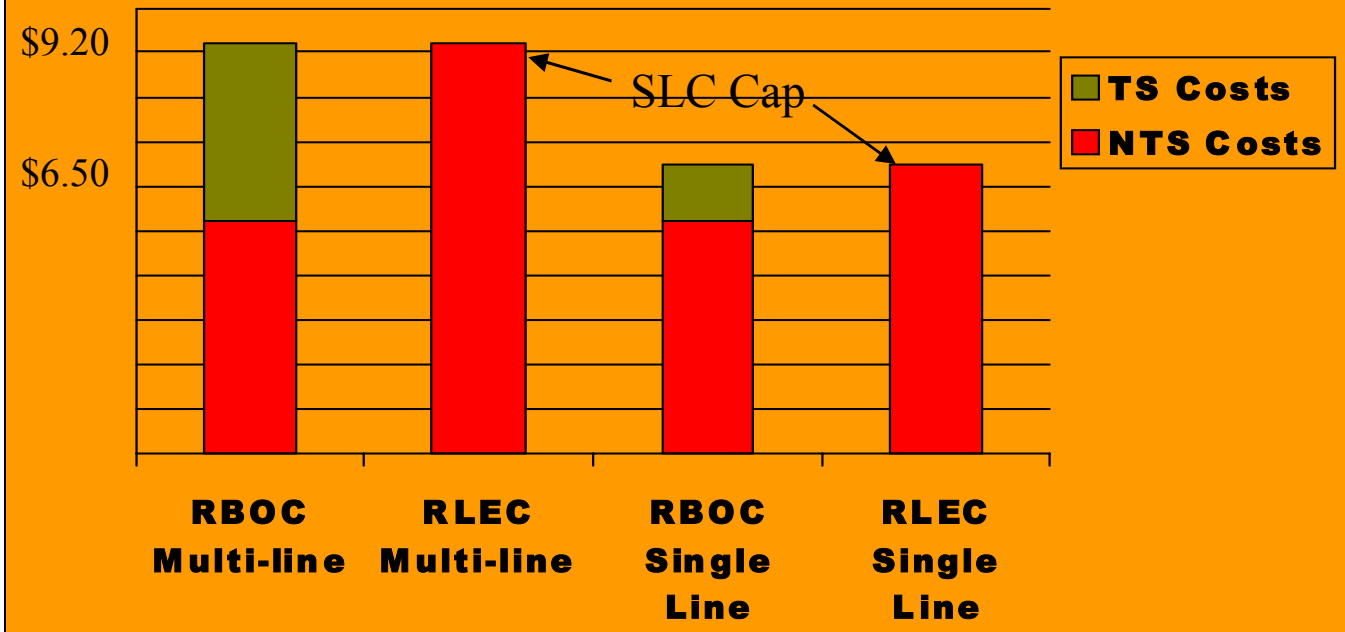
Local Rate Benchmarks

- **How?**
  - **The FCC and the states will establish a benchmark floor and ceiling on either side of the nationwide average RBOC rate.**
  - **Each state commission sets state benchmark(s) considering affordability and calling scope. Local rates transition to the benchmark over five years.**
  - **Wireline carriers who don't charge the benchmark rate may impute the rate.**
- **Why?**
  - **Equity and comparability of rates across the nation**
  - **Replaces existing "patchwork" of rate setting rules**

Equalized SLCs

- **How?**
  - **The current SLC caps will continue.**
  - **SLCs will be redefined to include recovery of both NTS and TS costs.**
  - **Rural wireline carriers will bill SLCs at the average residential and business rates for the RBOC in each state.**
  - **Why?**
  - **Comparability between rural and non-rural LECs**
  - **Alternate vehicle to recover TS costs for low-cost carriers--which allows a holistic solution**

RBOC SLCs will include TS Costs



What really is happening to minutes...

- **Generally, total NETWORK (access + recip comp) minutes are holding fairly steady.**
  - **Originating minutes are being lost to cellular and VoIP bypass.**
  - **But, terminating *network* minutes are generally not decreasing, and may be increasing.**
  - **Terminating access minutes are moving to recip comp.**
- **Minutes are being misrepresented to avoid higher rates.**

Unified Intercarrier Compensation Rates

- **How?**
  - **Unify all Intercarrier Compensation rates--state, interstate and recip comp.**
  - **Charge Intercarrier Compensation for all network minutes.**
- **Why?**
  - **Unified Intercarrier Compensation (ICC) rates reduce arbitrage opportunities.**
  - **Provides a mechanism to bill for all traffic traversing the network.**

Additional Provisions to Minimize ICC Abuse

- **The tandem owner is responsible for payment of unidentified ICC traffic.**
- **ICC traffic sent over EAS trunks will be billed to the ILEC sending the traffic[1].**
- **ICC traffic terminated over the ISP's local lines will be billed the ICC rate.**
- **Default termination tariffs at the calculated ICC rate will apply to recip comp traffic not covered by agreements[1].**

[1]Until a 3-party agreement is in place.

Cost-based ICC Rate Levels

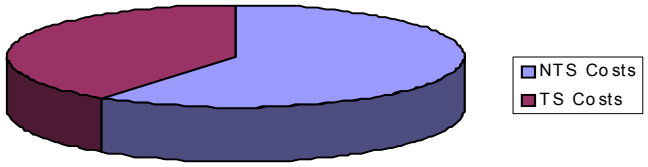
- **How?**
  - **Initial ICC rates based on TS unseparated embedded cost.**
  - **Permanent ICC rates set in FCC NPRM coordinated with RTF timeline.**
  - **Merge intrastate and interstate special access rates and structures.**
- **Why?**
  - **The FCC's original ICC NPRM stated that if not B&K, the rates must be based on economic cost.**
  - **Cost-based rates are efficient--No over or under consumption.**
  - **We expect the resultant lower rates to help companies meet the bypass threat.**

ICC Rates are filed, then validated

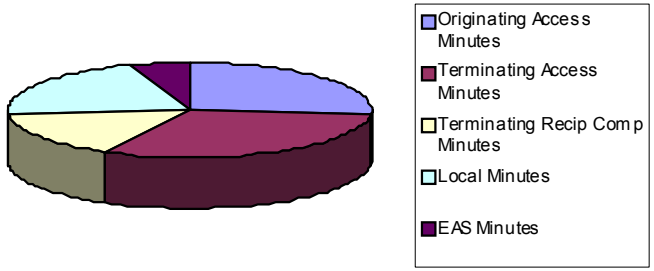
- **How?**
  - **Initially, the FCC and the states establish a joint process to review the procedures and data to determine ICC rates.**
  - **Annually, rates are filed at the FCC. The FCC and states will jointly review the rates to determine consistency with the pre-established procedures.**
- **Why?**
  - **Under the TA96, states have jurisdiction to approve recip comp rates.**
  - **States also have authority over intrastate access rates.**

ICC Rates = TS Costs/Total Minutes

Divide TS Embedded Costs by



Total Minutes using the Network



- **ICC rates will be banded and rate elements will be designed to recover costs of various interconnection configurations.**
- **ICC may be imputed for USF purposes and billed at a lower rate.**
- **ICC recovers TS costs less special access revenues less the TS revenue contribution from local service and SLCs.**

Why usage-based rates?

- Switching and transport costs are Traffic Sensitive.
  - Peak traffic load drives cost in both circuit and packet networks.
  - We believe that usage-based rate structures better allocate costs to network users than capacity-based structures.
- Usage-based rates are still prevalent in many retail rate structures, e.g. wireless.

Why usage-based rates? (continued)

- Capacity-based rates do not handle common trunks, rather RBOCs are forced to be aggregators.
  - The aggregator will likely bill on a per minute basis.
  - Aggregators will have control of pricing.

Why usage-based rates? (continued)

- The "additional cost" standard for recip comp is on a per call basis (applied per minute.) Charging recip comp on a capacity-basis is a violation of TA96.
- Capacity-based rate structures appear to confuse the compensation obligations associated with wholesale/retail relationships.

Why not Bill and Keep?

- Rural rate impacts are huge.
- Will lead to more destructive forms of arbitrage.
- Retail providers (IXCs, CMRS, and VoIP) cause cost and receive benefits from the use of rural networks without payment.

Who pays ICC?

- **Retail Service Provider Pays (RSPP)**

  When a retail service provider uses the network functionality of another carrier, the retail carrier is obligated to pay compensation.

- **RSPP is consistent with today's (recip comp and access) compensation obligations.**

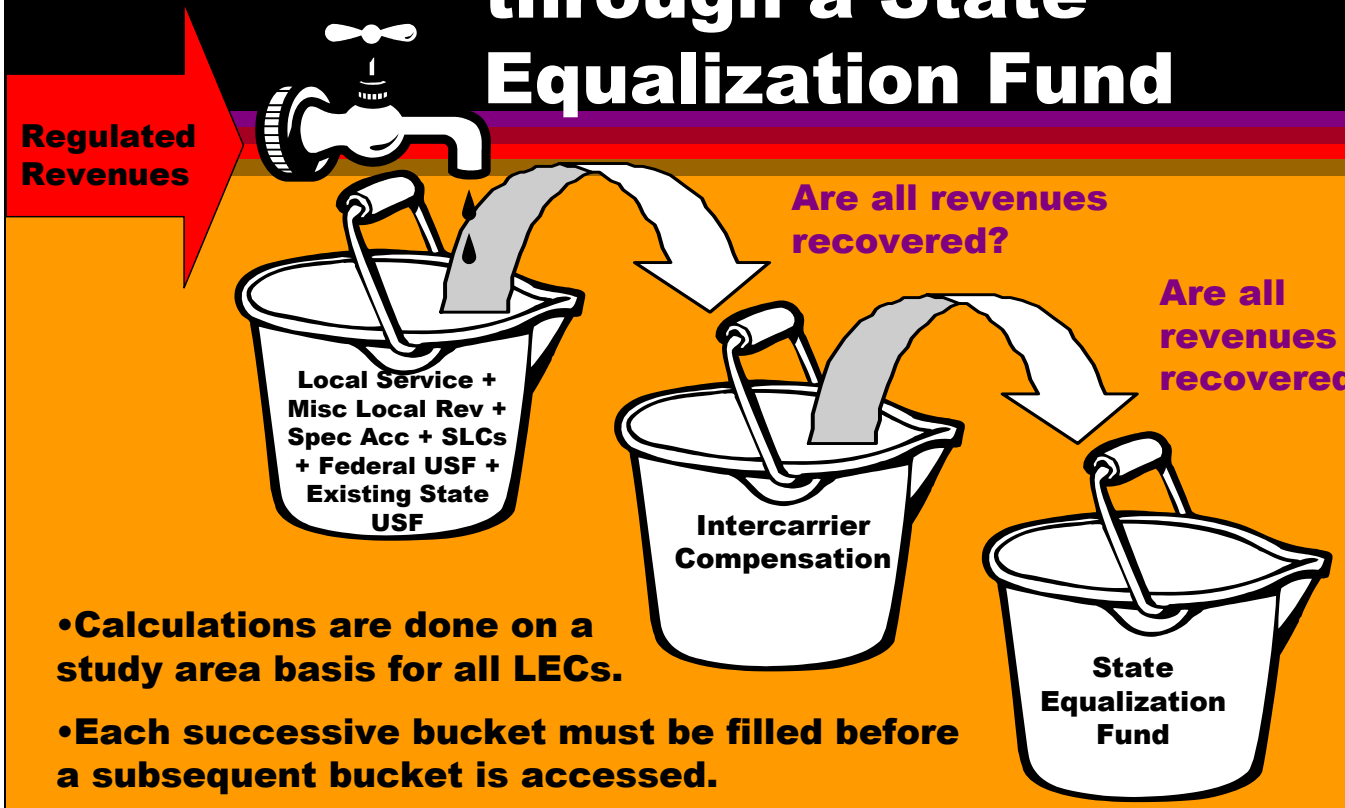
- **RSPP also makes sense in the IP world.**

- **Under RSPP, transiting costs are billed to the retail service provider, usually the IXC.**

Retain Existing Federal USF

- Existing federal USF is calculated according to the current methodologies.
- Existing federal USF includes HCL, ICLS, LSS and IAS.
- The current cap on HCL would be removed.

Residual revenues are recovered through a State Equalization Fund



- Calculations are done on a study area basis for all LECs.
- Each successive bucket must be filled before a subsequent bucket is accessed.
- Some RBOCs and other ILECs may not bill ICC.

State Equalization Fund (SEF)

- **How?**
  - State commissions have control over SEF distributions.
  - At the discretion of the state, existing state USF may be merged into SEF.
  - SEF recipients must be ETCs.
- **Why?**
  - States should control disbursement of SEF funds since state revenues are being replaced with SEF.

SEF funding is shared between the jurisdictions

- **How?**
  - **Both state and federal sources contribute to SEF funding.**
  - **Federal funding is contingent upon states reaching the benchmark floor and the state funding its share of the SEF.**
- **Why?**
  - **Federal funding is desirable to limit the burden on rural states.**
  - **State funding is desirable in order to encourage states to manage SEF size and limit federal USF growth.**

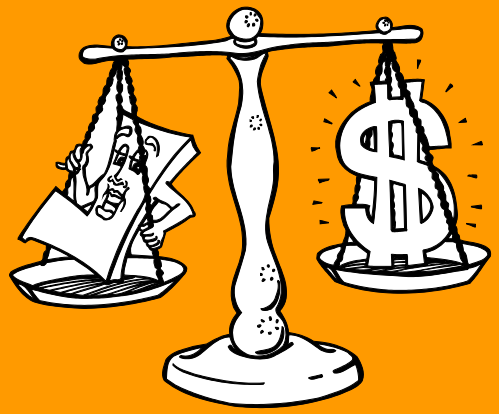
Federal Contributions to SEF

- **How?**
  - **Equalize the SEF funding burden by having a higher federal contribution in more rural states.**
  - **The minimum federal contribution is 25% while the maximum is 75%.**
  - **The federal jurisdiction will assume its percentage of the entire obligation--SEF and existing state funds.**
- **Why?**
  - **Rural states need more funding per customer.**
  - **Rural states have fewer customers from whom to collect SEF assessments.**

If a state chooses not to establish a SEF…

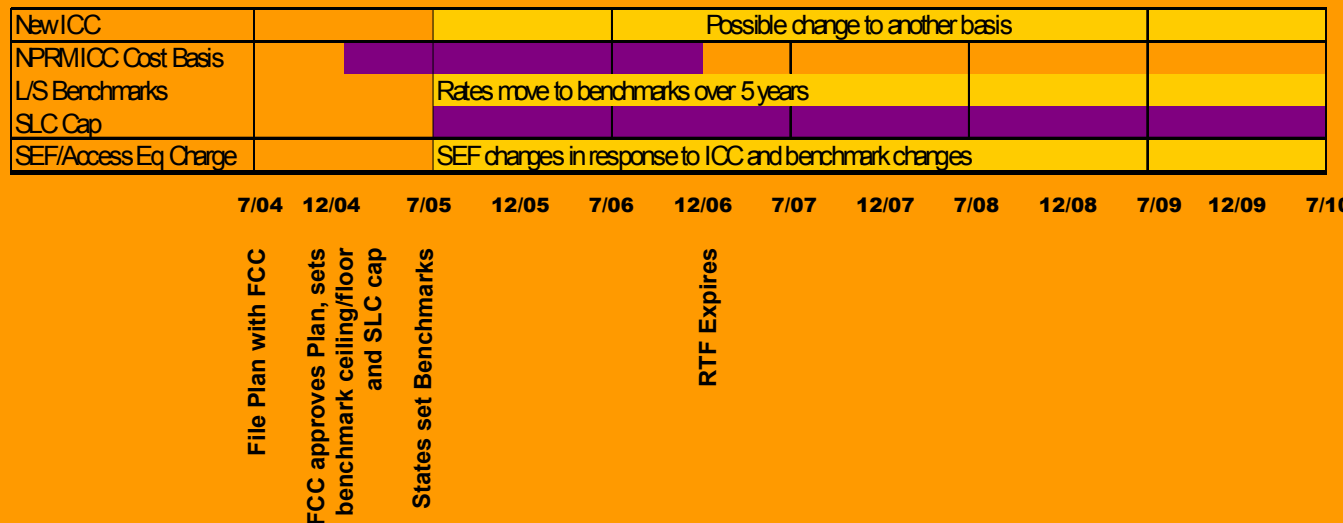
- **How?**
  - **All carriers, wireline and wireless, in the state collect or impute a statewide average "Access Equalization Charge" on each working number.**
  - **Carriers remit the charge to NECA, who then redistributes the collections within the state based on an individual company's revenue shortfall.**
  - **No federal funding is available when an Access Equalization Charge is implemented in lieu of a SEF.**
- **Why?**
  - **Companies in states that do not implement a SEF will have a means to recover their revenues.**

FACTS will promote prudent USF motivations

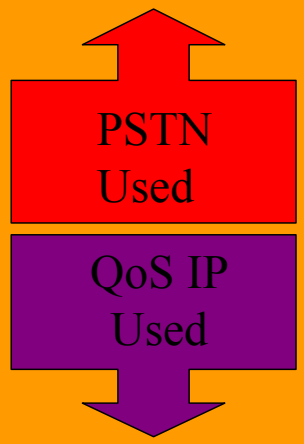


- States will be motivated to establish a SEF to obtain federal funds.
- State contributions will encourage states to commit USF dollars wisely.

When would the FACTS Plan take effect?



Parallel Universes: Circuit Switched & IP



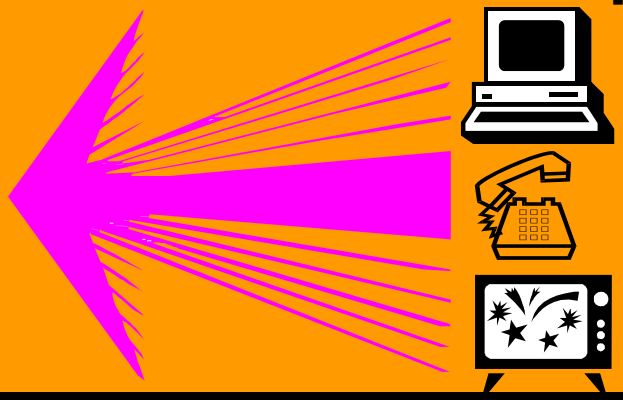
- **Today's access charge environment is consistent with RSPP.**
- **To the extent the Public Switched Telephone Network (PSTN) is used, PSTN compensation should be paid.**
- **RSPP compensation obligations should be no different in the IP environment.**
- **IP traffic should be billed using a new compensation structure based on cost causation in an IP world.**

Current Internet costs are not reflective of future IP costs

- Currently, customers mainly use the Internet for e-mail and web-browsing. These applications require limited network resources.
- In the future, multimedia applications, such as gaming, video streaming, video imaging, VoIP and web casting, will be widely used by customers. These applications require extensive network resources.
  - Example: DSL customer subscribing to 0.2% of capacity using 7% of transport capacity.

Cost-causation in a QoS IP World

- Quality of service (QoS) parameters, such as throughput, jitter, delay and packet loss, as well as duration and distance all reflect network cost in a multimedia IP environment.
- A session reflects cost-causation parameters.



Sessions guarantee QoS IP resources

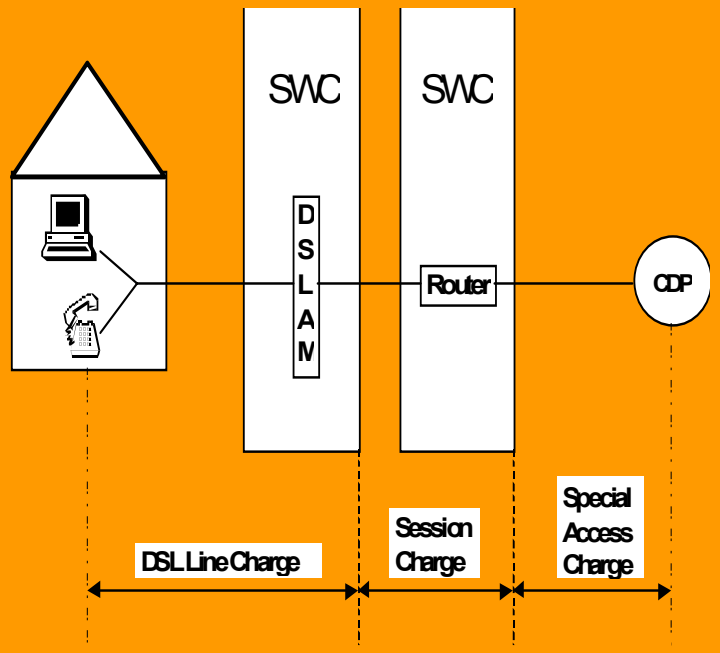
- A Session in the IP World is analogous to a Call in the Circuit Switched World.
- Customers initiate sessions to dynamically request network resources that support various multimedia applications.
- Multiple sessions can occur at the same time.

Recording sessions is a key to IP compensation

- Routers eventually will record QoS class information[1].
- To implement QoS IP Enabled Multimedia applications, the “best efforts” routers today must be replaced with QoS routers.
- Until these routers are replaced, multimedia applications will not be widespread and Sessions will not be billed.

[1] Throughput, delay, jitter, and packet loss rate

Future DSL tariffs should reflect IP cost causation



- **DSL Line Charge**
  - **Flat rate per month**
- **Session Charge**
  - **Units by QoS Class**
  - **Provides cost recovery from cost-causers in an IP world.**
- **DSL rate elements cannot be purchased independently.**

Example: Billing Sessions by Classes

Class of Service	Application	QoS Requirements
1	• Non-critical data • Internet web browsing	• Best Efforts Delivery • Un-managed Performance
2	• Error Free Data • VPN • Data Downloads	• No Loss • Controlled Delay and Variation • Medium Throughput
3	• Real Time Applications • VoIP	• Low Delay • Low Jitter • Low Loss • Low Throughput
4	• Gaming • Web Casting • Video Streaming	• Low Delay • Low Jitter • Low Loss • High Throughput

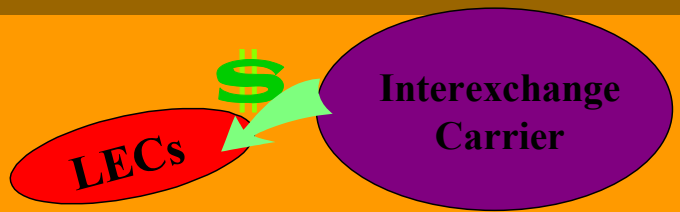
How is VoIP usage billed?

- The only way to bill for VoIP is through the DSL tariff.
- The following table shows how VoIP will be billed:

	Capacity-based	Usage-based
Originating Broadband	No change to DSL tariff	Addition of Sessions
Terminating Broadband	No change to DSL tariff	Addition of Sessions
Terminating PSTN	Capacity	Minutes

As the market changes, so will the source of compensation

PSTN World



IP World

- Compensation will no longer come from IXCs, rather ISPs will pay LECs. For many rural LECs, the ISP and the LEC are the same company.
- Sessions are billed to the Retail Service Provider.

Regulation of IP

- **To ensure service to rural customers in an IP environment there must be:**
  - **affordable, reasonable access to the backbone providers, and**
  - **infrastructure-based USF, and**
  - **a level playing field with providers using other technologies, and**
  - **compensation consistent with IP cost causation.**